Department of Energy

Washington, DC 20585

May 14, 2004

MEMORANDUM FOR: FIELD CHIEF FINANCIAL OFFICERS

FROM: HELEN O. SHERMAN, DIRECTOR
OFFICE OF FINANCE AND ACCOUNTING POLICY

SUBJECT: FY 2004 Environmental Liability Estimates

The purpose of this memorandum is to provide guidance for the development of the environmental liability estimates for the following major components to be reported in the FY 2004 Consolidated Financial Statements: (1) Office of Environmental Management's (EM) project baseline life-cycle cost estimates; (2) restructured environmental liabilities; and, (3) active and surplus facilities cost estimates. Due to the accelerated reporting requirements, the 3rd quarter financial statements must include updated environmental liability estimates with full footnote disclosures. Yearend reporting requirements remain. Accordingly, please develop your FY 2004 liability estimates using the following guidance:

EM Project Baseline Summaries (PBSs)

Field offices should update their environmental liability estimates in the accounting system to reflect project life cycle cost estimates. These liability estimates must be updated for subsequent life-cycle changes (i.e., changes after the IPABS cut-off date). All sites should have a crosswalk of their PBSs from the structure used last year to the structure used this year. Please maintain a copy of this crosswalk in your files for review by the auditors. The FY 2004 environmental liability estimates should be included in the 3rd quarter MARS submissions along with footnote disclosures. These estimates and footnote disclosures will be updated as necessary and included in the September MARS submissions. Please provide copies of your footnote disclosures to the Office of Financial Policy within 5 days after each MARS submission.

Restructured Environmental Liabilities

The restructuring of the EM program involves the transfer of activities/functions to other Departmental programs. At some sites, the EM liability estimate to be recorded for FY 2004 will have been adjusted for these transfers. The identification of and proper recording in the FY 2004 financial statements of any environmental liability associated with these transferred activities/functions are crucial. There may also be estimated costs for some transferred activities/functions included in the environmental liability in prior years that will no longer be classified as an environmental liability (e.g. infrastructure costs, site support services). B&R and source document codes have been established for recording these estimated costs. Definitions and the required entries related to the restructured environmental liabilities are

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provided as an attachment. A narrative crosswalk describing these transfers (*both types*) is to be submitted to the Office of Financial Policy by July 9, 2004.

Active and Surplus Facilities

The Active Facility Database Collection System (AFDCS) was opened for field input in February. Headquarters is currently reviewing the data submissions after which the liability modeling process will be run. Updated active facilities liability estimates will be available by June 30, 2004, and should be included in the 3rd quarter MARS submissions. In September, sites will be asked whether there have been any significant changes, e.g. facilities remediated. If significant changes have occurred, the modeling process will be re-run and any resulting changes to the estimates will be included in the yearend reporting submissions. For those sites that develop estimates outside of the AFDCS, estimates must be updated to reflect current information as necessary. These estimates must be adjusted to FY 2004 constant dollars. In this regard, the beginning balances should be multiplied by the inflation factor of 1.0184. This factor is based upon deflators listed in Table 1.3 of the Historical Tables of the FY 2004 Budget of the U.S. Government. Supporting documentation for site-developed estimates must be maintained and is subject to audit review.

FY 2004 changes to the above components will be updated in the accounting system by the following major categories:

- Constant dollar adjustment for FY 2004;
- Life-cycle cost changes;
- Transfer of function/activities from the EM program; and
- FY 2004 operating and capital costs.

Field offices are responsible for ensuring that there is sufficient documentation to support the environmental liability estimates. Support for the assertion that all contaminated facilities are included in the estimates, approaches used for removing duplicate costs, and any assertion of immateriality with regard to updating the estimates, must also be documented. A determination of the need for (1) an adjustment to the estimate as a result of conditions that existed at September 30, 2004, (i.e., preexisting conditions) or (2) a footnote disclosure for conditions that arose after September 30, 2004, must be made for any life-cycle cost estimate updates that occur or are in process after September 30, 2004, that are expected to materially affect the estimates.

If you should have any questions on this guidance, please contact Lois Jessup at (202) 586-3959. Specific questions related to the accounting codes/entries should be referred to Marion Hoch on (301) 903-4216 or Scott Chayette on (301) 903-9705.

Attachment

cc:
Michael Kane
Richard Loyd

Attachment

RESTRUCTURED ENVIRONMENTAL LIABILITIES
ACCOUNTING CODES AND ENTRIES

Source Document Code - REL

This code should be used for estimated costs for activities/functions transferred out from the EM program but are still considered an environmental liability of another program office. Examples would include waste processing and treatment, closure of waste tank farms, operating and maintenance costs of remedial actions. In some cases even research and development activities, those directly related to remediation technology development, may also remain an environmental liability.

B&R YN0401180 – Restructured Environmental Liabilities

This B&R is to be used for the identification of estimated costs previously classified as an environmental liability under the EM program but are no longer considered an environmental liability. Examples would include site infrastructure and support services, and surveillance and maintenance activity costs that are not associated with clean up. Additionally, if there are any research and development activities of a basic and general basis not directly related to clean up, these activities should no longer be considered part of the environmental liability.

These determinations are going to need to be made on a function/activity basis and will need to be fully documented. The Office of Financial Policy is available for assistance with these determinations.

Accounting Entries

To re-classify environmental liabilities transferred out of the EM program to other Departmental programs:

FT	BSC	SCC	Source Doc	Amount
54	3996	97	EMF	XXXX
54	3996	97	REL	(XXXX)

To reduce the environmental liability for those costs previously classified as an environmental liability under the EM program, but that are not longer considered an environmental liability:

FT	BSC	SCC	Source Doc	B&R	Amount
54	3996	97	EMF		XXXX
54	8139	60	EMF	YN0401180	(XXXX)

Attachment

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FIELD CFOs and Finance Managers				
ORG	**NAME/TITLE**	**TELEPHONE**	**FAX**	**E-MAIL ADDRESS**
CH	Thomas C. Foley Acting CFO	630-252-2414	630-252-2796	thomas.foley@ch.doe.gov
ID	Christine Ott Chief Financial Officer	208-526-5711	208-526-5406 or 208-526-0542	ottmc@id.doe.gov
NETL	Kirby Rothrock Acting Chief Financial Officer	304-285-4894	304-285-4216	kirby.rothrock@netl.doe.gov
NNSA	David Marks Director, NNSA Office of Field Financial Management/CFO	702-295-3126	702-295-3969	marksd@nv.doe.gov
NPR3	M. Janet Boulanger Finance Manager	307-261-5000 -- X5076	307-261-5817	janet.boulanger@rmotc.doe.gov
OH	Kay Hansen Acting Chief Financial Officer	513-246-0063	513-246-0224	kay.hansen@ohio.doe.gov
OR	Judith M. Penry Chief Financial Officer	865-576-4446	865-576-9686	penryjm@oro.doe.gov
PNRO	Gary A. White Chief Financial Officer	412-476-7254	412-476-7676	whitega@bettis.gov
RL	Jean F. Schwier Assistant Manager, Administration	509-376-6880	509-376-3703	Jean_F_Schwier@rl.gov
RL-ORP	Kevin Ensign Acting Chief Financial Officer	509-376-9327	509-376-8532	Kevin_R_Ensign@rl.gov
SNRO	William J. Leahy Chief Financial Officer	518-395-4264	518-395-6390/703-602-7233	leahy@kapl.gov
SPRO	Marvin T. Huntsman Director, Planning & Financial Mgmt. Dvn.	504-734-4296	504-734-4672	tommy.huntsman@spr.doe.gov
SR	John Pescosolido Chief Financial Officer	803-952-9420	803-725-7565	john.pescosolido@srs.gov
ME-14	Wendy L. Miller Director	301-903-5858 or -4466	301-903-6558	wendy.miller@hq.doe.gov